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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 03/07/07

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3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, March 6

NIHON KEIZAI (Page 2) (Full)
March 7, 2007

07:21:

Met at Kantei with Deputy Chief Cabinet Secretary Suzuki.

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08:31:

Attended cabinet meeting at Diet building. Foreign Minister Aso remained.

09:00:

Attended Upper House Budget Committee session.

12:11:

Met at Kantei with Suzuki.

13:00:

Attended Upper House Budget Committee session.

17:35:

Met at Kantei with Malaysian Deputy Prime Minister Najib.

18:15:

Met with Bolivian President Morales.

19:14:

Met classmate at Seikei University at Akasaka Prince Hotel.

20:52:

Attended party with university classmates.

21:52:

Returned to his official residence.

4) Paulson expresses hope for Japan's continued reform

MAINICHI (Page 9) (Full)
March 7, 2007

Meeting with reporters in Tokyo yesterday, visiting United States Secretary of the Treasury Henry Paulson, upon saying, "The global

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economy remains firm, and the Japanese economy is also in good shape," remarked, "In order for Japan to continue economic growth, its continued economic reform efforts are necessary." He thus indicated his hope for the Abe administration to continue its reform initiatives. The treasury secretary regarded the worldwide stock plunges last week as temporary, saying, "Uncertainty always looms over the stock market."

Paulson praised the former Koizumi administration's reforms, such as the disposal of nonperforming bank loans, as "contributing to constructive restructuring." He emphasized that Japan's continued efforts to bolster competition by opening up its capital market would benefit both the global and Japanese economies. In reference to the social gap created through competition, the treasury secretary said, "It is important to consider how to treat it,"

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adding, "Resisting protectionist and isolationist moves to avoid competition will benefit all."

The US has promoted strategic economic dialogue with China to urge it to reform the yuan since late last year. Paulson indicated the need to reform the Chinese financial market to stabilize the global economy, remarking, "The Chinese capital market is still under development, but it is in the course of being integrated into the world economy." Asked about the simultaneous share drops across the world, set off by share plunges on the Shanghai market, Paulson

said, "I cannot comment."

5) Paulson meets Economic and Fiscal Policy Minister Ota, BOJ governor

MAINICHI (Page 9) (Full)
March 7, 2007

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Visiting United States Secretary of the Treasury Paulson met in Tokyo yesterday with State Minister in Charge of Economic and Fiscal Policy Hiroko Ota and private-sector members of the Council on Economic and Fiscal Policy Nippon Keidanren Chairman Fujio Mitarai, University of Tokyo Professor Takatoshi Ito, and International Christian University Professor Naohiro Yashiro.

Paulson hailed the Abe administration's growth strategy, remarking, "It is very gratifying that Japan has pushed ahead with reforms. Reforming the labor market and improvement in productivity are very desirable." He then called for additional reform plans, such as an increase in transparency in the financial and capital markets.

Paulson also met with Bank of Japan Governor Toshihiko Fukui yesterday afternoon. They shared the view that the Japanese and US economies are in good shape.

6) Interview with US Treasury Secretary Paulson: Reveals intention to call on China to reform its "still developing" market

SANKEI (Page 2) (Full)
March 7, 2007

In an interview with reporters at the Tokyo Stock Exchange yesterday, visiting United States Secretary of the Treasury Henry Paulson said that the Chinese stock market is still under development and revealed that he would strongly call on China to reform its market. The recent worldwide stock falls showed that China's immature market system could be a risk for the world economy. Coordination between the US and China takes on greater importance for the stability of the global market. The difference in interest rates in Japan and the US have affected the US market. Asked about this point, Paulson indicated that the US would maintain the current rates, saying, "It is natural that there is a difference in interest rates between Japan and the US."

Paulson denied the view that stock plunges in the Shanghai market triggered the global stock slides, remarking, "Most parts of the Chinese capital market have not been linked to other countries' markets."

The treasury secretary acknowledged that the US housing market, which has continued to grow, is now in an adjustment phase, but he added that its effect is limited and that "the market has full leeway to contain credit risk." He emphasized, "The economic fundamentals that move the market remain firm."

Main exchanges in the interview follow:

-- Although it has been said that the global economy and the US economy are strong and healthy, why do you think global stock prices dropped simultaneously?

The global economy is quite healthy. The economy in the past two years appears to be the strongest ever since I joined the business world. The market reflects economic fundamentals and follows them over the long run. But it is rare for the market to remain stable, and fluctuations are common.

-- Share falls on the Shanghai market acted as a trigger for the

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global simultaneous stock plunge, didn't they?

I do not use the word "trigger." Though I made this plan several months ago, I will go to Shanghai on March 8 to discuss such issues as the reform and liberalization of the Chinese capital market, as well as how profits from the capital market should be utilized for China's economic development and for all Chinese trade partners. The Chinese market is still developing. Most parts of it have not been linked directly to other countries' markets. It has yet to be integrated into the global market, unlike the Japanese capital market.

-- Is it necessary to adjust the difference in Japanese and US interest rates?

According to US Federal Reserve Board Chairman Bernanke, there are two different types of economies. One is represented by the US economy, which is led by consumers and contains an inflation risk. Another is represented by the Japanese economy, which is based on expansion policy. I do not think it is strange that their interest rates are different.

7) Gov't, ruling parties to extend Iraq law for 2 yrs; Japan to continue ASDF's Iraq mission to support multinational forces

ASAHI (Page 1) (Full)
March 7, 2007

The government and ruling coalition decided yesterday to extend the Iraq Reconstruction Assistance Special Measures Law for two years. The law is to expire at the end of July. Japan will continue the Air Self-Defense Force's airlift support for US-led multinational forces in Iraq. The government first considered extending the law for one year. However, the United States is unlikely to withdraw its troops at an early date, according to a senior official of the Cabinet Secretariat. As it stands, the law is now expected to be extended

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for two years. However, with elections scheduled ahead for local assemblies and for the House of Councillors, the ruling parties are coordinating on when to introduce a revision bill to the Diet.

Meanwhile, US President Bush has announced a plan to reinforce US troops in Iraq. Prime Minister Abe takes it as the United States' resolve for the stabilization and reconstruction of Iraq. Abe has already clarified his intention to extend the ASDF's Iraq mission. However, the US administration's Iraq policy is also drawing criticism at home. The Iraq Special Measures Law is a time-limited law that is valid for four years, so the focus was on how long to extend it.

Defense Minister Kyuma, meeting the press yesterday, said he hoped to extend the law for two years. "The law should be extended for a long period of time," a Defense Ministry official said. "And then," the official added, "we can determine what to do, depending on circumstances." The official also said, "The United States is now working hard to help Iraq, so we can't get away from Iraq." An executive of the ruling Liberal Democratic Party also said it would be better to extend the law for two years instead of extending it time and again for a short period of time.

The United States held off-year elections last fall, and the

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Republican Party was defeated. At that time, critics in the United States argued that the United States should pull its troops out of Iraq at an early date. LDP lawmakers in the House of Councillors and lawmakers in the New Komeito, the LDP's coalition partner, also insisted on setting the period of extension at one year.

In January this year, however, Bush announced his plan to send more than 20,000 reinforcements to Iraq. Meanwhile, the security situation in Iraq has not changed for the better. The Japanese government therefore deems it difficult for the multinational forces to withdraw within one year. The United States is slated to hold a presidential election next year, and the government presumes that the propriety of the Bush administration's Iraq policy will become a point of contention in the race. With this in mind, the government

has now decided to extend the law for two years so that Japan will not be urged again for another extension of the law.

In order to play up the Japan-US alliance, the government is seeking to present a bill to the Diet before Abe leaves for the United States in late April. The LDP is thinking of bringing the bill before the Diet in late April to avoid an impact on the local elections.

The leading opposition Democratic Party of Japan (Minshuto) is poised to present a bill to repeal the Iraq Special Measures Law in an aim to focus on the law in campaigning for the House of Councillors election. The New Komeito's leadership therefore wants to have the bill clear the Diet at the earliest possible time before the upper house election.

8) Japan-DPRK working-group talks start today: Japan, not budging on the abduction issue, to meet an aggressive North Korea full of confidence on negotiations with US, and planning to isolate Japan

TOKYO (Page 2) (Excerpts)
March 7, 2007

Yasunobu Shirouchi in Hanoi

Working group talks between Japan and North Korea on normalization of relations will start today as scheduled. North Korea is filled with self-confidence, having convinced the US to engage in direct negotiations, its long-cherished desire. It will take an aggressive stance in the talks. Japan by taking a persistent stance on the abduction issue, hopes to turn the tables, but it could find its tactic giving the impression of its being isolated.

"We will transmit to the other party our basic position that without resolving the abduction issue, there can be no normalization of relations," stressed Ambassador in charge of normalization talks with North Korea Koichi Haraguchi, who will serve as the chief negotiator for Japan in the working group talks. He stressed upon arrival in Hanoi that the abductions would be "top priority." He took a stance that if North Korea showed a "sincere response," there was a possibility of discussing economic cooperation that would accompany normalization of relations.

9) Prime Minister Abe in Upper House Budget Committee says he expects US cooperation on abduction issue by conditioning removal of North Korea from designated terrorist list

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TOKYO (Page 2) (Excerpt)
March 7, 2007

Prime Minister Shinzo Abe and his entire cabinet attended Upper House Budget Committee hearings yesterday, where basic interpellations on the fiscal 2007 budget bill are not continuing. Commenting on the US-North Korea working group for normalization on relations, Abe said: "In my meeting with US Vice President Cheney (in February), I asked that on the removal of North Korea (from the list of terrorist-sponsoring countries), we wanted to add the condition that there be movement in the direction of a resolution of the abduction issue. So I think the US well understands Japan's position." He indicated his outlook that the US would cooperate in achieving progress in the abduction issue.

10) LDP decides not to seek review of Kono statement on comfort women issue in response to Kantei's call

MAINICHI (Page 2) (Full)
March 7, 2007

Eiji Hiramoto

The Parliamentary Council to Consider the Future of Japan and History Education (chaired by former Education Minister Nariaki Nakayama), a group of lawmakers of the ruling Liberal Democratic Party (LDP), yesterday decided not to ask Prime Minister Shinzo Abe

to review the 1993 Kono statement, in which Kono admitted to the former Japanese Imperial Army's involvement in the comfort women issue and offered an apology. Taking the position that there was no evidence to prove that the former Japanese Imperial Army had forced women into military brothels, the group initially planned to urge the prime minister to review the statement, but in part because the Prime Minister's Official Residence (Kantei) called on the group to refrain from doing so, the group turned around its previous policy. Instead it has decided to present to the prime minister a set of proposals calling for reinvestigating the wartime military comfort women issue.

The council in its meeting on March 1 was making final adjustments to (1) a draft proposal to ask the prime minister to review the Kono statement, and (2) a draft proposal to issue a new statement in the name of the chief cabinet secretary for the purpose of modifying the Kono statement.

Later, however, an aide to the prime minister told a senior council member: "If a proposal calling for a review of the Kono statement is created, that will allow the opposition parties to pursue the government in the Diet over the difference in perception between the prime minister, who has announced his policy of inheriting the Kono statement, and the ruling parties." As a result of discussing this request among some veteran council members, many shared the view that it is unwise to drag the prime minister down.

Abe was initially dismissive of the Kono statement, but after taking office as prime minister, he made it clear that he would stand by the Kono statement by interpreting the statement as meaning that there was no "coercion in the narrow sense," but there was "coercion in the broad sense" that women worked in military brothels against

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their will. Also, at a meeting yesterday of the Upper House Budget Committee, Abe stated, "There was no evidence to prove coercion in the narrow sense." According to a senior council member, the council has now understood Abe in this sense that he is not satisfied with the statement. The council's policy switch apparently came out of consideration for the prime minister, who is now torn between LDP conservatives calling for a review of the Kono statement and countries opposing a review of the statement, such as China and South Korea.

The council is expected to formally adopt a set of proposals at its meeting set for tomorrow and also to ask the government to explain to other countries how Japan has addressed the issue of the misdeeds of the last war.

11) Minshuto's young lawmakers to form parliamentary group to call for correction of Kono statement

SANKEI (Page 5) (Full)
March 7, 2007

Junior lawmakers of the main opposition party, Minshuto (Democratic Party of Japan) will form a parliamentary group aiming at correcting the 1993 statement issued by then Chief Cabinet Secretary Yohei Kono, in which Kono acknowledged the "comfort women" issue and apologized for it. Concerned about US Congress discussing a draft resolution criticizing Japan based on the Kono statement, the group will compile a set of proposals for correcting the statement and ask the Prime Minister's Official Residence to accept their request. "We will prevent Japan from damaging its interests," an organizer said. The group will verify the history of the Nanjing incident, as well. The organizers include House of Representatives members Shu Watanabe and Jin Matsubara.

12) Nanjing incident: No records of a massacre

SANKEI (Page 5) (Full)
March 7, 2007

The group to verify the truth of the Nanjing incident, made up of junior lawmakers from the ruling Liberal Democratic Party (LDP) and the largest opposition party, Minshuto (Democratic Party of Japan),

yesterday held a session to hear from Shudo Higashinakano, a history professor at Asia University, about the result of his study of the Nanjing incident that he found no descriptions of a "massacre" in formal records and private documents in Japan and abroad. The professor said that he examined documents of an international committee that protected refugees in Beijing, British and US consulates, and the Nationalist Party's Public Relations Department. He pointed out: "There was misconduct by individual Japanese soldiers, but even the Jiang Jieshi government did not say there was massacre."

13) 17 percent cut in yen loans to China approved by LDP's foreign affairs panel

MAINICHI (Page 2) (Full)
March 7, 2007

Takuji Nakata

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The Ministry of Foreign Affairs (MOFA) yesterday came up with a proposal for reducing yen loans to China for fiscal 2006 to 62.3 billion yen at a session of the ruling Liberal Democratic Party's (LDP) Foreign Affairs Division and obtained approval. The amount will be reduced by some 12.5 billion yen, a 17 percent cut from fiscal 2005. This proposal is expected to be approved at a cabinet meeting by the end of the month.

Yen loans to China have been reduced for six years in a row, showing a 70 percent cut from the peak in fiscal 2000. The Japanese and Chinese governments have agreed that new yen-loan programs will come to an end before the Beijing Olympics in August 2008.

Yen loans for fiscal 2006 have been limited to seven environmental programs that include (1) construction of a sewage facility in Kunming City, Yunnan Province (about 10.4 billion yen) and (2) reducing air pollution in Hohhot City, Inner Mongolia Autonomous Region (about 6.3 billion yen).

14) National referendum bill likely to clear lower house this month; Ruling collation may force vote

ASAHI (Top play) (Abridged)
March 7, 2007

The ruling Liberal Democratic Party and its coalition partner, the New Komeito, have now decided to present a bill, revised on their own, to the Diet during its current session for a national referendum law that stipulates procedures for constitutional revision. The two ruling parties are likely to pass the bill on their own in the House of Representatives this month. The ruling coalition sought to revise the bill together with the leading opposition Democratic Party of Japan (Minshuto). However, the DPJ has changed its mind. The ruling coalition therefore thought it unavoidable for it to present the bill on its own. In the House of Councillors, however, the bill will likely go through stormy deliberations as the LDP's standoff with the DPJ has now become clear. It is unclear whether the bill will pass the Diet in its current session.

Prime Minister Abe has now clarified that he will make an issue of constitutional revision in his ruling party's campaigning for this summer's election for the House of Councillors. In addition, Abe has also said he would aim for the bill's passage before May 3, Constitution Day. In response to Abe's intention, Taro Nakayama, an LDP lawmaker who chairs the Special Committee on the Constitution in the House of Representatives, consulted with Okiharu Yasuoka, a senior director of the panel, and others, and they confirmed that the committee would meet tomorrow to schedule a public hearing for March 15.

Nakayama also met New Komeito Representative Ota to ask for coordination in the New Komeito. The New Komeito wanted to revise the bill with the DPJ but has now changed its attitude. "We can't unnecessarily delay Diet discussions," one of the New Komeito's

executives said. Another executive of the party said, "The LDP and the New Komeito are going to present the revised bill."

The DPJ has now given up retouching the bill with the ruling

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coalition, and the DPJ will also oppose the ruling coalition's revised bill. The ruling coalition and the DPJ continued their consultations to avoid making an issue of constitutional revision in the upper house election. In January, However, DPJ President Ozawa set forth his stance of facing off with the ruling parties, saying, "I don't mind making an issue of the Constitution." With this, Ozawa put the brakes on his party. The ruling and opposition parties intensified their confrontation in taking a vote on the budget for fiscal 2007 in the House of Representatives. The DPJ therefore is inclined to oppose the revised bill, according to one of its executives.

The ruling coalition will introduce the revised bill to the Diet after a public hearing scheduled for March 15. The ruling parties will get the bill through the House of Representatives on March 23 and want it enacted into law by May 3. However, the House of Councillors has just set up a special committee to deliberate on the bill. The committee will therefore need a certain period of time to deliberate on the bill. In case the ruling coalition takes a vote on its own in the House of Representatives, the opposition bench is also likely to raise an objection to entering into deliberations on the bill in the House of Councillors. With the local elections and consecutive holidays in between, it would not be easy for the bill to clear the Diet before May 3.

15) Irritated Komeito seeks action from Abe Cabinet on "politics and money" scandals prior to unified local elections

TOKYO SHIMBUN (Page 2) (Excerpt)
March 7, 2007

New Komeito lawmakers during the Upper House Budget Committee hearings yesterday one after the order called for responses by Prime Minister Abe and his cabinet on the "politics and money" scandals and the various gaffes by members of the Abe cabinet. Prior to the unified local elections in April and the Upper House election in July, the support ratings of the Abe Cabinet have continued to drop, and the Komeito lawmakers in yesterday's interpellations were unable to hide their irritation at the government.

16) First Lady conducts "Akie-style" active diplomacy; Invites 97 wives of foreign ambassadors in 3 weeks to show them the film "Megumi"

SANKEI (Page 5) (Full)
March 7, 2007

Akie Abe, the wife of Prime Minister Shinzo Abe, has developed an "Akie-style First Lady diplomacy." In an attempt to play up the importance of the Issue of North Korea's abductions of Japanese, the First Lady has invited as of March 6 the wives of a total of about 100 ambassadors to Japan to the Prime Minister's Official Residence (Kantei) to introduce them the film "Megumi: 30 years of the family separated," which takes up the abduction issue.

The film expresses the inhumaneness of the abductions and the love of the parents Shigeru and Sakie Yokota, who have continued to persevere, believing in someday being reunited with their daughter Megumi.

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The screenings of the film was started based on Akie's strong desire. She invited on Feb. 13 the wives of ambassadors from 16 Asian and Oceanian countries, including South Korea and Thailand, to the movie. She held five showings, including the last one yesterday, inviting a total of 97 wives of foreign ambassadors.

Reportedly, many of the 97 viewers shed tears, understanding the seriousness of the abduction issue for the first time, and the First Lady told them in fluent English: "I would like you to tell your impressions to persons close to you and people in your countries."

17) Imperial Household Agency announces Empress is suffering intestinal bleeding, mental fatigue

TOKYO SHIMBUN (Page 1) (Excerpts)
March 7, 2007

The Empress has recently experienced internal bleeding several times from the walls of the intestines, the Imperial Household Agency announced yesterday. The agency attributes the cause to the psychological stress. The Empress will continue her official duties for the time being. She will have two rest breaks -- a total of 10 days -- between late March and early April. The agency explained: "The walls of the intestines where the bleeding occurred are not ulcers. So her illness does not need urgent treatment." The agency considers the cause to be psychological stress stemming from media reports on the royal family, as well as her tight schedule.

According to the agency, in late February after the Empress had a rest due to a cold, doctors found mouth ulcers, nosebleeds, and signs of bleeding on the surface of the intestinal walls. She does not appear to have felt any of the internal symptoms herself. She has undergone an examination and the medication by a specialist on digestive diseases.

The doctors diagnosed the Empress as suffering from gastritis through her regular medical checkup in January. The agency attributes the series of symptoms of her illness to mental fatigue.

18) Citigroup to gain majority stake in Nikko Cordial

NIHON KEIZAI (Top Play) (Lead paragraph)
March 7, 2007

United States financial services giant Citigroup announced plans yesterday to launch a takeover bid to make Nikko Cordial Corp. a subsidiary. Citigroup will boost its stake in Nikko Cordial to over 50 percent from its current stake of about 4.9 PERCENT. The two companies have also agreed to form a comprehensive business alliance. Citigroup aims to hold all the shares in Nikko Cordial. More than 600 billion yen will be needed to gain a majority stake in Nikko Cordial. If the plan is realized, it will be the largest TOB in Japanese history. The Tokyo Stock Exchange decided yesterday to make an official decision on March 9 to delist Nikko Cordial stock.

Gist of comprehensive alliance between Citigroup and Nikko Cordial

7Citigroup to raise its stake in Nikko Cordial to over 50 PERCENT
7Citigroup to launch a takeover bid within a week to obtain a majority stake in Nikko Cordial

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7Citigroup to conclude a credit insurance contract with Nikko Cordial and provide funds
7Two companies to offer wide-ranging financial services to individual customers
7Two companies to explore corporate and institutional investors and strengthen their business alliance

SCHIEFFER